SRP
FEDERAL CREDIT UNION

April 7, 2015

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Comments on Proposed Rule: Risk Based Capital

Dear Mr. Poliquin:

On behalf of the Board of Directors of SRP Federal Credit Union, we would like to provide our official comment letter regarding the NCUA's recently proposed risk-based capital rule.

We applaud the NCUA's response to the 2,000 comment letters addressing the original risk-based capital rule and the changes that resulted in the new proposal. However, we believe that any risk-based capital rule is not necessary and creates additional burdens to both the industry and the NCUA. If the current RBC proposal were applied retrospectively to the financial downturn experienced by the industry recently, 95 per cent of the credit unions that would have been deemed problematic by the proposal actually came through the financial crisis soundly. We believe that is a good indication that the rule is not needed. Any efforts to implement this unnecessary proposed rule will be costly to both the industry and the NCUA, with current cost estimates far exceeding $3 million. We fully expect the true costs of implementation will be much higher when credit unions have to comply with the proposed rule.

The decisions the NCUA made in 2009 while in the midst of the financial crisis are serving the credit union industry well as we move forward. I am noting those decisions below:

- Eliminated the longer term examination cycles, implementing the 12 month exam cycle
- Re-writing the Examination manual to more accurately address the changing financial landscape
- More communication from the Agency outward to the credit union community
- Partnering with Trade Associations in joint webcasts on current issues

Each of these actions noted above have brought the NCUA closer to the credit union community that it regulates. Additionally, the quarterly call reporting, annual examination process, and Part 702 of the Rules and Regulations are ample tools for the Agency to utilize for ensuring the safety and soundness of the credit union industry.

P.O. Box 6730
North Augusta, SC 29861
Phone 803 • 278 • 4851

We remain steadfast in our beliefs that the broad range of control and restraints contained in this risk-based capital proposal may hinder and diminish the role of all credit unions as a viable financial option to the citizens of our great nation. Let's not create additional restrictions that would hinder credit unions ability to offer and compete for financial services in a highly competitive marketplace. Current rules and restrictions are sufficient to ensure the safe practice of all credit unions. Credit unions must be allowed to remain competitive in order to be relevant in the evolving financial marketplace.

With all this being said, and contemplating a risk-based rule being developed, we are summarizing our comments as follows and appreciate the Board's consideration of each component.

SCOPE OF RBC
The proposal establishes an asset threshold limit of $100 million for application of the proposed rule. We do not believe that applicability of the proposed rule should rely solely on asset size. Capital accumulation and maintenance is critical for all credit unions, regardless of asset size. Establishing a threshold of $100 million in assets is implying that capital is not as important in a smaller asset sized credit union. Credit unions face many of the same risks to capital, regardless of asset size. The components of the balance sheet and management philosophy should be included in determining the applicability of the proposed rule.
Our recommended change:

- The scope of applicability should not rely solely on asset size. The composition of the balance sheet should be a determining factor for applicability. Exemptions based on asset size will create inconsistencies and inequities in operations.

INVESTMENTS
The risk weights assigned to U.S. Government sponsored entities is unfair. The credit risk associated with these investments is no different than the credit risk associated with U.S. Government obligations. Currently both FNMA and FHLMC are conserved by the U.S. government and both agencies have implicit guaranties from the U.S. government. How can any investor look at these 2 agencies as having anything but an explicit guaranty from the U.S. government? Without these agencies there would be no market for lending made available for housing, farming, and other essential instruments for the U.S. economy. Instruments issued by these 2 GSE's are held worldwide by foreign governments and international investors.
Our recommended change:

- Risk factors for Agency obligations should be the same as U.S. Govt. obligations, which is 0%

CUSO

The risk weight of 150% assigned to investments in a credit union service organization is unfair and immediately labels all CUSO organizations as an extremely risky endeavor. A broad and arbitrary risk weight to cover all CUSO investments, regardless of service, will be a hindrance to future investments in service organizations. CUSOs provide a valuable service to a credit union's membership, and many CUSO types are a key differentiator in the market that the credit union serves. To apply a severe risk weight of 1.5 times the investment in a CUSO will certainly impede the development of future credit union service organizations. Monitoring and timely reporting of the CUSOs performance along with the required independent audit is sufficient for managing the risks associated with CUSO investments.

Our recommended change:

- Establish a risk weight factor of not more than 100% for investments in CUSOs.

NON-DELINQUENT FIRST MORTGAGE REAL ESTATE LOANS

The proposed risk weights for non-delinquent first mortgage real estate loans should be the same, regardless of the concentration. Establishing risk weights that are tiered by concentration are contradictory to the low-risk and secure nature of first mortgage real estate loans. Within most credit union loan portfolios, loans secured by real estate are the most secure and typically carry the least credit risk.

Our recommended change:

- Apply risk weights to non-delinquent first mortgage real estate loans at the same level of 50%, regardless of the concentration percentage.

MORTGAGE SERVICING ASSETS

The proposed risk weights for mortgage servicing should consider whether the loan is without recourse or with recourse. Assigning a risk weight of 250% to all loans, regardless of whether the loan is sold without recourse, is not addressing risk equitably and would predispose any credit union to reconsider a mortgage servicing option.

Our recommended change:

Assign a lower risk to those loans that are sold without recourse.
Establish a risk weight maximum of 150% for mortgage servicing assets.

CORPORATE PAID IN CAPITAL

The Corporate Credit Union structure today contains less risk than the Corporate structure that failed in 2009. With new regulations and monitoring in place for the Corporate Credit Unions, the paid in capital investments at Corporate Credit Unions are exposed to less risk even though it is uninsured. Natural person credit unions benefit with participation in the Corporate Credit Union network. Placing high risk weights on paid in capital investments is indicative of pre-corporate bailout years and does not reflect properly the risk associated in today's Corporate environment.

Our recommended change:

Assign a lower risk weight of 100% on Corporate Paid in Capital to more accurately reflect the improved structure and strengthened regulations governing the Corporate Credit Unions.

SUPPLEMENTAL CAPITAL
The proposed rule does not allow the use of supplemental capital in the risk-based calculation. We can only raise capital through our earnings. A well-managed and operated credit union can be subject to seasonal inflows of deposits which can impact a credit union's capital and potentially activate sanctions under the prompt corrective action rules. Seasonal deposit growth can be managed properly and result in no impact on a credit union's earnings, however, it can have an enormous impact to a credit union's capital ratio, and potentially cause the capital levels to drop in such a manner that would trigger the Agency's prompt corrective action. If the restrictions in the current risk based capital proposed rule are approved, then a credit union's ability to raise supplemental capital will be more important than ever.
Our recommended change:
Supplemental capital should be an option for all credit unions.

GOODWILL
Consolidation in the credit union industry is a trend that will likely continue to grow whether from mergers of convenience and service or mergers of necessity and survival. Goodwill can be an incentive for credit unions to merge or takeover troubled credit unions. Only allowing goodwill from "supervisory" mergers to be included in the risk-based calculation and not for providential merger reasons may be a disincentive for an otherwise strong credit union to consider merging another credit union because of the possible significant negative effect to its risk based capital.
Our recommended change:
We recommend that all Goodwill be included in the risk based capital ratio.

We appreciate the opportunity to comment on this very important issue that will impact the entire credit union industry. We implore you to review the restraints that this rule will place on all credit unions as we face increasing competition from traditional and non-traditional financial service providers throughout the industry.

With kind regards,

Woody Shuler

Woody Shuler
Vice President of Finance